

## EXCERPTS OF RECENT MEDIA COVERAGE

# PRIVATE EQUITY PRACTICE

## A SAMPLING OF BDO THOUGHT LEADERSHIP IN THE MEDIA FOR Q2 2014

### ► WALL STREET JOURNAL

#### PRIVATE EQUITY HAS MORE THAN IT CAN SPEND

By Andrew Blackman

How does it feel to have a trillion dollars burning a hole in your pocket?

Ask the private-equity industry. It has been so successful in raising money from investors recently that it can't spend it fast enough.

The amount of money raised by private-equity firms but not yet invested—known as dry powder—hit a record high of \$1.073 trillion globally at the end of 2013, according to data provider Preqin, an increase of \$130 billion from 2012. The total has continued to grow this year, reaching \$1.141 trillion globally as of the start of June.

The problem for private-equity firms is that the same strong stock market that has allowed them to collect big profits in the past couple of years on their earlier investments is making it harder to find good investments now.



"A lot of the private-equity sponsors I speak with are really frustrated at finding opportunities at a price they're interested in," says **Lee Duran, partner and private-**

### equity practice leader at consulting firm BDO USA LLP.

Sectors like software as a service and health care are particularly popular among investors right now, says BDO's Mr. Duran, meaning valuations for companies with strong profits and good growth prospects can be very high.

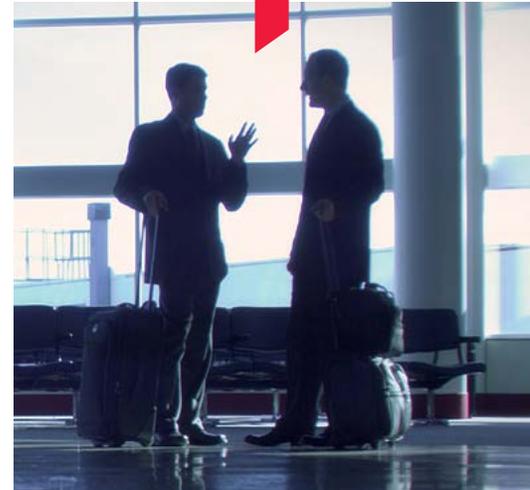
In December, BDO asked more than 100 U.S. private-equity executives what their most significant challenge would be in the coming year, and the most common response was pricing, cited by 39% of respondents, up from 15% in a similar survey a year earlier. Second on the list was identification of quality targets, cited by 34% of respondents, up from 28% in the previous survey.

### ► INDUSTRYWEEK

#### FOLLOW THE MONEY: WHO'S INVESTING IN MANUFACTURING?

By Dave Blanchard

Strategically speaking, Calumet Specialty Products Partners' recent acquisition of Anchor Drilling Fluids USA Inc. was a typical under-the-radar move centered on the purchase of a small to mid-sized manufacturer. Calumet (IW 500/209), a \$5.4 billion producer of hydrocarbon and fuel products, paid \$235 million to acquire Anchor, which earned \$26.3 million in 2013. Calumet expects Anchor



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to continue its healthy growth rate of 20% EBITDA (earnings before interest, taxes, depreciation and amortization), but that's only part of the story here.

The Anchor deal is a microcosm of similar deals that happen all the time in what some are calling a "manufacturing renaissance," and it illustrates clearly why manufacturing is considered the greatest opportunity for new investment in 2014. In this case, private equity firm American Capital, which first invested in Anchor back in 2005, ended up earning a 24% compounded annual return on its investment, to the tune of \$33 million.



According to **Dan Shea, managing director and head of private equity coverage for BDO Capital Advisors,** "capital is available in abundance for mergers and acquisitions,"

particularly for the manufacturing and distribution sector, which accounts for 18% of all deals in the U.S. In fact, private equity firms are currently sitting on nearly a half-trillion dollars (\$466 billion) in raised but uninvested equity, and with the demand for acquisition targets exceeding the supply, "it's a seller's market right now for manufacturers," Shea says. The private equity community believes there is a lot of value creation opportunity in U.S. manufacturing right now, Shea observes, and that situation should continue into

the future. "It's a refreshing shift from several years ago when offshoring was happening to a greater degree, most people were focusing on high-tech opportunities, and manufacturing was considered the unattractive step-child."

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## ▶ ACG GLOBAL GENERAL PARTNERS ANTICIPATE ANOTHER YEAR OF MODERATE DEAL FLOW

By **Lee Duran, Scott Cacurak, Kevin Kaden, Ryan Guthrie, Partners in BDO USA's Private Equity practice,** and **Dan Shea, Managing Director with BDO Capital Advisors** & member of BDO USA's Private Equity practice



Despite a strong fourth quarter and a record setting year for private equity returns, private equity deal flow has yet to take off

in early 2014. Deploying capital has proven to be more challenging for general partners who are competing for a smaller pool of quality assets and increased competition by financial and strategic buyers.

At the same time, investor appetite for the asset class continues to grow. According to a recent study by Preqin, institutional investors are predicting private equity will produce the best opportunities among the alternative asset classes in the coming year.

To take the pulse of the industry and identify the key challenges and opportunities that will impact private equity in 2014, the private equity practice at BDO USA, LLP, conducted its fifth annual **Perspective Private Equity Study** from November through December 2013. This year's study, which examined the opinions of more than 100 senior professionals at private equity firms throughout the U.S., found that despite a robust year of returns in 2013, fund managers anticipate they will face a year of moderate deal activity, marked by challenges in terms of pricing and identifying quality targets, as well as an unfavorable investment environment.

In fact, only 15 percent of private equity fund managers – regardless of fund size – predict they will close more than five deals in 2014, a marked dip from 2013, when 22 percent of fund managers anticipated closing more than five deals.

While anticipating fewer deals, fund managers are simultaneously hopeful that they will have opportunities to deploy more capital in the deals that close during the coming year. Thirty-six percent of fund managers expect to invest more than \$100 million in new deals or add-on acquisitions in 2014, a significant uptick from 2013, when only 23 percent projected this level of investment. In terms of where this capital is heading, 97 percent of private equity fund managers plan to grow existing portfolio companies by seeking add-on acquisitions in the coming year (up from 87 percent in last year's forecast).



**► PITCHBOOK NEWSLETTER**

**FRIDAY MORNING DEALMAKERS COLUMN – SEAL THE DEAL: MINIMIZING POST-ACQUISITION DISPUTES TO DRIVE VALUE**

By **Jeffrey M. Katz, Partner at BDO Consulting and Leader of BDO Consulting's Disputes Advisory Services Practice**

Private equity leaders expect 2014 to be another year of moderate deal flow volume, according to BDO's fifth annual *PEerspective Private Equity Study*. With the ability to effectively source and close deals already a concern, it's important that fund managers proactively consider future changes in generally accepted accounting principles (GAAP) that can impact post-acquisition disputes before a deal is finalized. Doing so can minimize the occurrence of post-closing disputes, which, in turn, will directly impact deal valuations.

M&A agreements often contain earn-out provisions that provide contingent consideration to the seller if future earnings targets are met. These provisions often require that calculations be made in

accordance with GAAP applied consistently with past practices.

The Financial Accounting Standards Board (FASB) has ongoing projects that will update certain GAAP topics. For example, the FASB is close to finalizing a GAAP update of revenue recognition that will likely impact accounting for revenue in future periods, thereby affecting the future outcome of earn-out targets negotiated today. Future post-acquisition disputes will likely center on whether the language of the M&A agreement requires applying GAAP as it existed when the target was negotiated or as it exists when earnings are calculated in future periods.

By understanding how GAAP might change in the future and making sure that M&A agreements negotiated today consider those future changes, dealmakers negotiating an agreement can often help minimize post-acquisition disputes, thereby allowing the buyer to focus solely on growing the value of its business.

**CONTACT:**

LEE DURAN, San Diego  
858-431-3410 / lduran@bdo.com

JOE BURKE, McLean, VA  
703-770-6323 / jburke@bdo.com

SCOTT CACURAK, San Francisco  
415-490-3232 / scacurak@bdo.com

JERRY DENTINGER, Chicago  
312-239-9191 / jdentinger@bdo.com

MARK ELLENBOGEN, Washington, DC  
301-634-4975 / mellenbogen@bdo.com

RYAN GUTHRIE, Costa Mesa  
714-668-7385 / rguthrie@bdo.com

SCOTT HENDON, Dallas  
214-665-0750 / shendon@bdo.com

KEVIN KADEN, New York  
212-885-8000 / kkaden@bdo.com

TODD KINNEY, New York  
212-885-7485 / tkinney@bdo.com

MATT SEGAL, Chicago  
312-616-4630 / msegal@bdo.com

DAN SHEA, Los Angeles  
310-557-8205 / dshea@bdocap.com

MICHAEL WHITACRE, Atlanta  
404-979-7116 / mwhitacre@bdo.com

[www.bdo.com/privateequity](http://www.bdo.com/privateequity)

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